PEPSI-COLA COMPANY

Annual Report

1949

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March 24, 1950

To the Stockholders of
Pepsi-Cola Company:

The financial report of your Company and its subsidiaries for the year ending December 31, 1949, together with a Consolidated Balance Sheet at that date, and a summary of Consolidated Income and Earned Surplus for that year, is submitted herewith. They have been certified by Haskins & Sells, independent Certified Public Accountants.

The consolidated net profit for the year, after taxes and charges, was $2,135,238, which is equivalent to 37 cents per share on the outstanding common stock, taking into account foreign exchange loss of $208,000. The Company provided a reserve of $1,525,000 as at the end of 1949 for the excess of net assets of a Cuban subsidiary sold in 1950 over the estimated net proceeds, and the extraordinary charge resulting therefrom has been made to earned surplus in 1949. The consolidated net profit for the previous year was $3,152,817, equivalent to 55 cents per share.

Financial Position

The net current assets as of December 31, 1949, amounted to $11,633,477 as compared with $11,420,141 at the close of the previous year. Cash and government bonds equalled $9,980,216 at December 31, 1949. Included in the cash figure is the proceeds of a loan now in the sum of $4,667,000 made to your Company in 1948 by the New York Life Insurance Company for a fifteen-year period at 3% per annum.

During 1950 this cash figure has been further increased by approximately $4,000,000 as a result of your Company's sale to a Cuban group of all the stock of its Cuban subsidiary, Compania Ingenios Azucareros Matanzas, S.A., which owned and operated the sugar plantation known as Central Espana.*

The financial position of your Company as reflected in its net current assets provides more than adequate funds for the extensive job of rehabilitating profit-producing markets and reconstructing properties and facilities, to which further reference is made hereafter.

*NOTE: See Note 2 in "Notes to Financial Statements" (page 11). Inasmuch as your Company has sold this Cuban subsidiary, the income from it, included in Consolidated Net Income in previous years, will not, of course, be available in the future to your Company. In 1949, the net income after taxes and charges of this subsidiary was $393,891. The average net income, after taxes, for the six-year period of ownership by your Company was approximately $875,000. Substantially all of the income from this source accrued in the first half of each year.

It is deemed in the best interests of the Company that insofar as possible this job of rehabilitation and reconstruction be financed from earnings, and that, accordingly, a conservative policy in the payment of dividends be followed. Investing these earnings in developing a sounder business will mean that the immediate return to stockholders will be kept moderate. However, it is felt that this policy over the longer period will produce more than commensurate benefits.

Changes in Management

On March 1, 1950, the Board of Directors instituted certain changes in management. Mr. Walter S. Mack, Jr. was promoted to the position of Chairman of the Board and the Board elected me President and Chief Executive Officer of the Company.

Subsequent to that date, other changes have been made, as follows: Mr. Sheldon R. Coons, prominent business consultant, who has been retained by your Company since August, 1948, was elected to the Board of Directors and to the Executive Committee. Mr. James W. Carkner, director of the Company, has become Chairman of the Executive Committee. Mr. William B. Forsythe, a director and long the Vice-President in Charge of Export, was promoted to First Vice-President of the Company and was also made Chairman of the Board of the Pepsi-Cola Company of Canada. Mr. Herbert Barnet, long associated with the Company and most recently Vice-President in Charge of National Sales, was promoted to Vice-President in Charge of

Domestic Operations. Mr. Varney Graves has been promoted to President of the Pepsi-Cola Metropolitan Bottling Company, Inc., your Company's subsidiary which operates Company-owned bottling plants. Mr. Richard Burgess has been promoted to Vice-President in charge of selling our product in bottles. Mr. Milward W. Martin, Secretary of the Company and head of the Legal Department, has been promoted to Vice-President.

In advancing these men to the front line of authority and responsibility, we have greatly strengthened your Company's management with men of broad experience and comprehension of the carbonated beverage industry and of your Company in particular. As need requires we shall continue to strengthen our staff with men who know the business and have the respect of the people who distribute our product.

It is with deepest regret that your Board of Directors records the death on December 10, 1949, of one of its valued members, Mr. Harral S. Tenney, who had been a director of the Company since 1939.

Mr. James G. Blaine, President of The Marine Midland Trust Company of New York, of which Mr. Tenney was Executive Vice-President, has been nominated as a director of your Company to take the place of Mr. Albert Winger, who because of the pressure of other duties has requested that he not be nominated for re-election.

Franchised Bottlers

The management of your Company is deeply appreciative of the importance of its relationships to its franchised Bottlers, through whom its sales are principally made. Because it is primarily through franchised Bottlers that our product must flow to the consumer, they may be considered the foundation upon which our business and our trademark can be profitably and permanently developed. Accordingly, Bottler problems are our problems and Bottler opportunities our opportunities. Because these problems and opportunities differ from territory to territory, it is the firm resolve of your management to help in those problems and grasp those opportunities, territory by territory. It is this territory-by-territory advance that will enable us to realize the growth potentialities inherent in our business.

Since joining the Company on March 23, 1949, I have been impressed with the very great potential opportunity for substantial increases in the volume of sale of our product, despite the difficulties resulting from increases in labor, material, and distribution costs.

Company-Owned Plants

This process of rehabilitating the markets is also essential in territories supplied by Company-owned bottling plants. Here public acceptance of the product can be further developed, facilities for production can be made more efficient, and distribution to large metropolitan markets can be enlarged to the opportunities

and needs. To develop maximum acceptance and availability in these areas, to create increased profit from these plants, to make them sound and more efficient economic units, and to continue the progress they have recently been making will require substantial investments of money and organizational effort.

Export Operations

Sales overseas are expanding to such noteworthy extent that in most competitive areas, public preference for Pepsi-Cola is pronounced. Many new franchises have been granted. Plans for additional new franchises and other programs now under development to meet this world-wide acceptance all strongly indicate continued expansion of foreign sales and further enlargement of their profit contribution to your Company's total operations.

Summary

The potential marketing opportunities for Pepsi-Cola are extensive, for its high quality and low unit cost to the consumer enable us to make it attractive to all people of all ages and groups everywhere.

Expanding our business in all markets is not an easy task, nor will it be accomplished overnight. The markets must be developed segment by segment with programs best suited to each. These markets will respond to persistent effort carefully planned and vigorously directed along sound, tested, experienced principles. As the opportunities are large so are our problems and the effort required to solve them.

Your Company must move forward or drift backward — it cannot stand still. It will use every available resource of experience, money, men, and action to insure its forward progress. Doing the job will take hard work and plenty of it, experienced thought and plenty of it, persistent vigor and plenty of it. The new management of your Company will see to it that this work is done — with energy, purpose, and all possible dispatch.

By Authority of the Board of Directors

Alfred N. Steele

Alfred N. Steele, President

PEPSI-COLA COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1949 AND 1948

ASSETS

	December 31 1949	December 31 1948
Current Assets:		
Cash	$ 4,942,016	$ 6,535,400
United States and (in 1948) Canadian Government obligations (market value—1949, $4,190,300)	4,025,000	2,471,789
Notes and accounts receivable (less reserve for doubtful receivables—1949, $168,094; 1948, $96,427)	1,549,805	1,310,915
Inventories:		
Finished and in-process	1,570,508	1,780,231
Raw materials and supplies	4,249,734	4,573,501
Total current assets	$16,337,063	$16,671,836
Miscellaneous Assets:		
Notes and accounts receivable—not current	$ 886,818	$ 678,040
Machinery held for resale	432,316	401,171
Cost of 16,000 shares of capital stock of the Company acquired for an officer (payment to be received by March 21, 1954)	171,420	
Other	224,886	262,851
Total miscellaneous assets	$ 1,715,440	$ 1,342,062
Property, Plant, and Equipment:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less reserves for depreciation and amortization—1949, $5,801,065; 1948, $5,259,031)	$10,914,191	$10,862,598
Bottles and cases on hand and with trade (at estimated depreciated values)	2,386,952	2,282,787
Total property, plant, and equipment—net	$13,301,143	$13,145,385
Deferred Debit Items:		
Prepaid insurance, taxes, etc.	$ 310,039	$ 549,806
Advertising materials and expenses	463,043	367,396
Expenses applicable to succeeding year's sugar crop in Cuba	632,953	692,143
Other	331,537	147,258
Total deferred debit items	$ 1,737,572	$ 1,756,603
Trade-Marks, Formulas and Goodwill	$ 1	$ 1
Total	$33,091,219	$32,915,887

Reference is made to the accompanying Notes to Financial Statements.

PEPSI-COLA COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1949 AND 1948

LIABILITIES

	December 31 1949	December 31 1948
Current Liabilities:		
Loans payable to banks	$ 252,904	$ 950,000
Accounts payable and accrued	2,725,078	2,431,701
Accrued taxes—estimated:		
United States and foreign income taxes (less United States Treasury tax notes –1949, $1,013,200; 1948, $1,001,600)	1,193,596	1,332,547
Other taxes	532,008	537,447
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	$ 4,703,586	$ 5,251,695
Other Liabilities:		
Note payable to insurance company, 3%, due June 1, 1963 (payable $337,000 on June 1, 1951 and $333,000 annually thereafter)	$ 4,667,000	$ 5,000,000
Customers' deposits on bottles and cases	994,665	926,261
Liens (Censos) on certain properties in Cuba	131,447	131,447
Total other liabilities	$ 5,793,112	$ 6,057,708
Reserve for excess of equity in net assets of a Cuban subsidiary over estimated net proceeds from sale, in 1950, of investment in such subsidiary	$ 1,525,000	
Capital Stock and Surplus:		
Capital stock—authorized 7,500,000 shares of 33⅓¢ each; issued and outstanding 5,752,659.57 shares (including 654.57 shares in treasury—see below)	$ 1,917,553	$ 1,917,553
Capital surplus	5,199,550	5,199,550
Earned surplus (since August 1, 1939)	13,963,126	14,500,089
Total	$21,080,229	$21,617,192
Less treasury stock (654.57 shares, at cost)	10,708	10,708
Total capital stock and surplus	$21,069,521	$21,606,484
Total	$33,091,219	$32,915,887

Reference is made to the accompanying Notes to Financial Statements.

PEPSI-COLA COMPANY AND SUBSIDIARIES

SUMMARY OF CONSOLIDATED INCOME AND EARNED SURPLUS

FOR THE YEARS ENDED DECEMBER 31, 1949 AND 1948

	Year ended December 31 1949	1948
Gross Profit on Sales	$24,102,658	$24,990,164
Advertising, Selling, Shipping, General and Administrative Expenses	19,518,853	19,180,743
Profit from Operations	$ 4,583,805	$ 5,809,421
Other Income	272,842	378,999
Gross Income	$ 4,856,647	$ 6,188,420
Income Charges	910,509	1,076,651
Net Income Before Deducting Provisions for United States and Foreign Income Taxes	$ 3,946,138	$ 5,111,769
Provisions for United States and Foreign Income Taxes—Estimated:		
United States	$ 1,480,000	$ 1,380,000
Foreign	330,900	578,952
Total	$ 1,810,900	$ 1,958,952
Net Income	$ 2,135,238	$ 3,152,817
Earned Surplus, Beginning of Year	14,500,089	13,791,992
Total	$16,635,327	$16,944,809
Surplus Charges:		
Dividends paid (20¢ a share in 1949 and 42½¢ a share in 1948)	$ 1,147,201	$ 2,444,720
Extraordinary charge — excess of equity in the net assets of a Cuban subsidiary over estimated net proceeds from sale, in 1950, of investment in such subsidiary	1,525,000	
Total	$ 2,672,201	$ 2,444,720
Earned Surplus, End of Year (since August 1, 1939)	$13,963,126	$14,500,089

Reference is made to the accompanying Notes to Financial Statements.

PEPSI-COLA COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. The inventories are stated at cost, representing average cost except for certain ingredients for which cost is determined on the basis of first-in, first-out. Such cost was not in excess of market.

2. Foreign subsidiaries:

The current assets and liabilities, total assets and liabilities, earned surplus, and net income (for 1949) of foreign subsidiaries included in the consolidated financial statements at December 31, 1949 are as follows:

			Cuban subsidiaries		
	British subsidiary	Canadian subsidiary	Matanzas Sugar Estates, Inc. (see below)	Other Cuban subsidiary	Mexican subsidiaries
Current assets	$433,743	$1,226,722	$1,171,302	$ 228,087	$618,890
Current liabilities..	207,171	111,299	901,516	239,140	82,091
Total assets..	679,816	2,007,840	6,687,483	1,405,010	684,161
Total liabilities..	240,371	111,299	1,032,963	313,399	82,091
Earned surplus (deficit)..	(12,363)	25,435	5,219,542	(279,850)	317,477
Net income (loss) for year	*96,393	*(63,990)	393,891	(286,978)	315,331

*After giving effect to loss from exchange devaluation.

The assets, liabilities, income and expenses of these subsidiaries are included in the consolidated financial statements on the following basis: the assets (other than property, plant, and equipment) and liabilities have been converted into United States dollars at the current rates of exchange at the respective year ends; income and expenses (except for depreciation) have been converted at rates prevailing during the respective years. Property, plant, and equipment have been included at amounts which represent their United

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States dollar equivalent at the time of acquisition or origin; provisions for depreciation have been converted at rates prevailing at time of acquisition of the related assets.

Provisions for taxes related to the transfer of funds to the United States are made only at the time of such transfers.

The withdrawal of funds of the British and Canadian subsidiaries is subject to presently prevailing foreign exchange restrictions.

On January 13, 1950 the Company entered into an agreement for the sale of its investment in Matanzas Sugar Estates, Inc., a wholly-owned Cuban subsidiary. The capital stock of Matanzas was acquired in December 1943 at a cost of $3,320,000, which cost was subsequently reduced by $991,020 through retirement of part of the stock. Net income of this subsidiary from date of acquisition to December 31, 1949, included in consolidated earned surplus, amounted to $5,219,542. The equity of the Company in the subsidiary's net assets $7,548,522, exceeded the estimated net sales proceeds, $6,020,000 (after deducting estimated Cuban taxes, etc.), by approximately $1,525,000, which has been provided for in the accompanying financial statements as of December 31, 1949.

3. The Federal income tax returns of the Company and domestic subsidiaries have been examined and settled through the year 1944; the tax returns for subsequent years have not yet been examined.

The Company previously filed an application for an increase in its excess-profits credit under relief provisions (Section 722) of the Internal Revenue Code. The examining agent's office of the Treasury Department has proposed to reject the claim but the Company has protested this proposal, which protest is now before the Field Committee for consideration. Since it is impossible to predict whether the Company will obtain any relief in this respect, no effect has been given to this claim in the financial statements.

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4. The provisions of the note payable to the insurance company include certain restrictions on the payment of cash dividends on the capital stock of the Company. At December 31, 1949 approximately $993,000 of earned surplus was free of such restrictions. Collection by the Company on January 5, 1950 of a loan to a foreign subsidiary increased the amount of earned surplus free of such restrictions to approximately $2,196,000.

5. At December 31, 1949 the Company was contingently liable as guarantor of bank loans aggregating $450,578 to various franchised bottlers and a supplier.

6. The provisions for depreciation and amortization charged to manufacturing and expense accounts amounted to $918,039 in 1949 and $943,031 in 1948.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

ACCOUNTANTS' CERTIFICATE

THE DIRECTORS AND STOCKHOLDERS
OF PEPSI-COLA COMPANY:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its subsidiaries as of December 31, 1949 and the related summary of consolidated income and earned surplus for the year then ended. As to the companies other than the Canadian subsidiary our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to the Canadian subsidiary, we examined a report of chartered accountants and the figures for that company included in the accompanying statements are derived from such report. The total assets of this subsidiary and its gross profit on sales for the year are approximately 6% and 3%, respectively, of the consolidated totals; it sustained a net loss for the year.

In our opinion, which as to the Canadian subsidiary is based upon the report of other accountants as above mentioned, the accompanying consolidated balance sheet and the related summary of consolidated income and earned surplus, with their notes, present fairly the financial position of the companies at December 31, 1949, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York,
March 21, 1950

DIRECTORS

WALTER S. MACK, JR., *Chairman of the Board*

JAMES W. CARKNER, *Chairman of the Executive Committee*

WALTER W. COLPITTS
SHELDON R. COONS
WILLIAM B. FORSYTHE
MORTIMER HAYS
HERBERT M. SINGER
ALFRED N. STEELE
ALBERT E. WINGER

OFFICERS

ALFRED N. STEELE	*President*
WILLIAM B. FORSYTHE	*First Vice-President*
HERBERT L. BARNET	*Vice-President*
RICHARD BURGESS	*Vice-President*
ALBERT J. GOETZ	*Vice-President*
EDMOND B. LOUGHLIN, SR.	*Vice-President*
RICHARD J. RITCHIE	*Vice-President*
MILWARD W. MARTIN	*Vice-President and Secretary*
JOSEPH A. MURPHY	*Treasurer*
GEORGE E. BLISS	*Assistant Vice-President*
D. MITCHELL COX	*Assistant Vice-President*
THOMAS ELMEZZI	*Assistant Vice-President*
FRANCIS B. FOSTER	*Assistant Vice-President*
KENNETH A. MCALEENAN	*Assistant Vice-President*
HENRY E. MCGOVERN	*Assistant Vice-President*
GRAFTON B. PERKINS, JR.	*Assistant Vice-President*
A. ALLEN THOMSON	*Assistant Vice-President*
WALTER W. MASTERS	*Ass't Secretary and Ass't Treasurer*
THOMAS E. O'CALLAGHAN	*Assistant Secretary*
JAMES W. ROBERTSON	*Assistant Secretary*
LOUIS E. NUFER	*Assistant Treasurer*